COMMENT TO "WEALTH DISTRIBUTION AND TAXATION IN EU MEMBERS" BY ANNA IARA

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This very interesting study by Anna Iara contains three main contributions. First, it presents an overview of wealth distribution and wealth taxation in European Union (EU) countries, drawing on the Eurosystem Household Finance and Consumption Survey (HFCS) and on Ernst and Young (2014). Second, the paper offers a summary of arguments in favour of asset-based taxation, taking account of efficiency, equity, political economy and tax administration considerations. Third, Iara's study discusses design and implementation issues, at both national and supranational levels, for taxation of three forms of wealth: housing, net wealth, and bequests and gifts.

My discussion will be structured along similar lines. I will start by reporting some evidence on wealth taxation, resorting to an alternative statistical source. I will then briefly discuss the case for taxation of wealth transfers and net wealth on both efficiency and equity grounds. In my view, arguments for taxation are stronger as regards wealth transfers, but there are considerable design and implementation challenges. While efforts to overcome these challenges are called for, priority should nonetheless be given to improving the taxation of capital income: progress in this area, highly desirable in itself, may also make the taxation of wealth transfers more feasible in the future.

Revenues from wealth taxation are small

In the OECD classification of taxes (OECD, 2014), wealth taxation can be approximated by taxes on property. Average revenue across the OECD from this category of taxes is summarised in Table 1.

Unsurprisingly, these taxes often yield limited revenue, and are heavily tilted towards recurrent taxes on real estate and, to a smaller extent, transaction taxes (falling on either real estate or on other assets). Recurrent taxes on net wealth and estate, inheritance and gift taxes have on average a residual dimension, and in some countries simply do not exist (Figure 1). There is broad consensus that recurrent taxes on immovable property tend to be among the most growth-friendly forms of taxation (for instance, by avoiding that capital allocation is distorted into housing and by penalising vacant property), and that transaction taxes are often highly distortive (Johansson *et al.*, 2008). In contrast, there is less agreement among economists on whether wealth transfers and net wealth should be taxed. Some discussion on the pros and cons of these latter taxes therefore ensues.

The case for taxing wealth transfers tends to be stronger than for taxing net wealth

If my interpretation is correct, the general balance of arguments in Anna Iara's paper tends to favour taxing net wealth over taxing wealth transfers (see, e.g., the last paragraph of Section 4.3). One of the arguments invoked is the ambiguity of bequest motives.

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Table 1

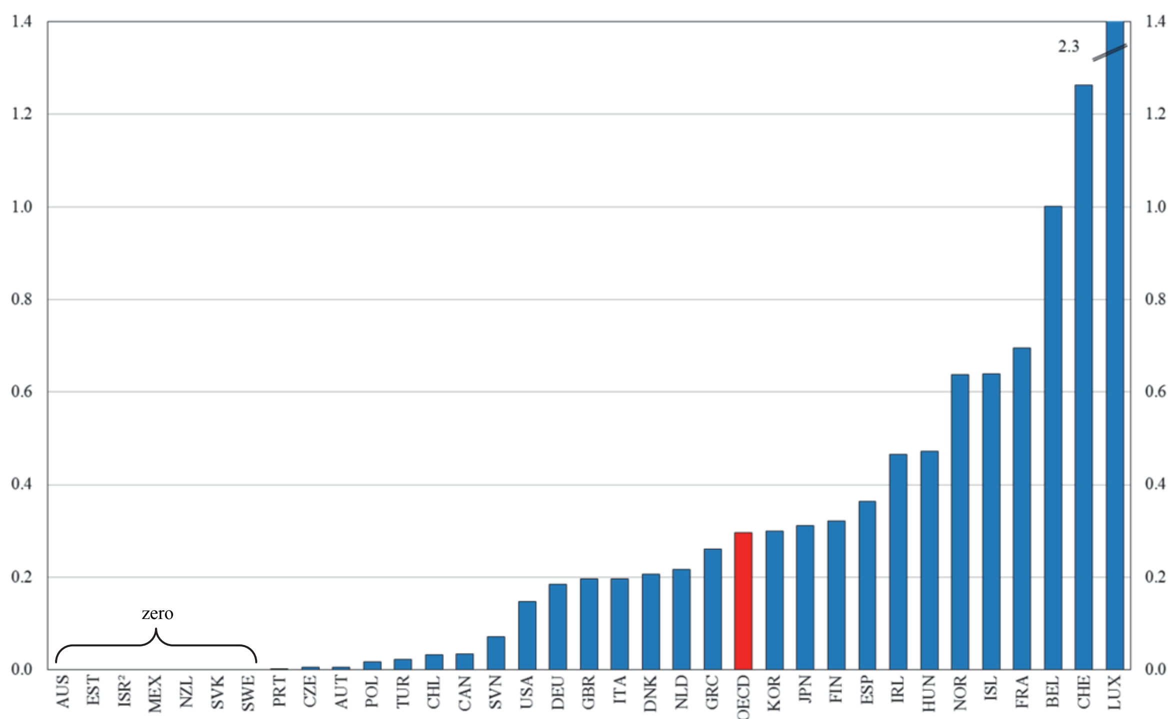
Wealth Taxation in the OECD, 2013
(tax revenue as a percentage of GDP)[1]

	OECD Average
Taxes on property	**1.82**
Recurrent taxes on immovable property	1.09
Recurrent taxes on net wealth	0.18
Estate, inheritance and gift taxes	0.13
Taxes on financial and capital transactions	0.40
Non-recurrent taxes	0.03
Other recurrent taxes on property	0.01

1. Estimate calculated using 2012 data for Australia, Greece, Mexico, Netherlands and Poland.
Source: OECD (2015), "Revenue Statistics: Comparative tables", OECD Tax Statistics (database).

Figure 1

Wealth Taxation in OECD Countries, 2103
(recurrent taxes on net wealth plus estate, inheritance and gift taxes as a percentage of GDP)[1]



2012 for Australia, Greece, Mexico, Netherlands, Poland and the OECD average.
The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: OECD (2015), "Revenue Statistics: Comparative tables", OECD Tax Statistics (database).

This ambiguity – or rather, variety – of motivations can in my view help justify wealth transfer taxation on efficiency grounds. To the extent that bequests are unplanned or accidental – which would correspond to wealth accumulation driven only by consumption smoothing or precautionary motivations – taxation, even at a high rate, entails no disincentive to save (Cremer, 2010). Bequests guided by strategic considerations (e.g., in exchange for care or attention) should also arguably be taxed. It is only when bequests are driven by pure altruism that, under certain additional conditions, zero taxation would be optimal from an efficiency viewpoint. While some altruism will likely be behind many bequests, making taxation distortive to some extent, a counterargument is that inheritances also reduce the incentives to save and work of recipients (Mirrlees et al., 2011).

The efficiency case for a periodic tax on the stock of wealth, especially on top of capital income taxation, appears weaker. Adverse effects on capital accumulation and growth are a common concern, especially with high capital mobility. Further, while a tax on wealth is roughly equal to a tax on capital income from that wealth, the wealth tax is more exposed to the objection of taxing normal returns to savings but not taxing excess returns (for instance, in the corporate context, capital income taxation can be designed to avoid taxing normal returns on capital through an ACE – allowance for corporate equity – system). Wealth taxation could be advocated as a backstop to taxing capital income, but it is far from clear whether taxing wealth stocks is any easier than capital income.

On equity grounds, both taxes on net wealth and on wealth transfers are generally desirable. As Anna Iara's paper shows, wealth tends to be highly concentrated across households in European countries. In most of these countries, the recent crisis has made distributional concerns more pressing, with increases in income inequality, poverty incidence and poverty intensity. An important goal in itself, greater equity is also likely to bring benefits on a number of other fronts, such as efficiency gains associated to less scope for rent-seeking by politically-influent wealthy citizens, a better functioning of democracy and possibly less macroeconomic instability (by avoiding that low-income households take excessive debt to keep up with consumption norms). The paper has the merit of highlighting these different potential benefits.

Given major challenges to taxing wealth transfers, improving capital income taxation is key

Taxing wealth transfers would often be desirable, but would also face considerable challenges. There are ample avoidance opportunities, especially for transfers *inter vivos* concerning non-real estate assets. This tends to have regressive implications: the wealthy are in a better position to avoid taxation than the middle classes, for whom wealth often largely consists of owner-occupied housing and other (modest) assets hard to dispose of (Mirrlees *et al.*, 2011). Other hurdles include valuation difficulties and cash constraints on some asset owners (e.g. family businesses), though these constraints could at least in some cases be alleviated by tax deferrals. Failure to successfully implement taxation of wealth transfers – ideally falling on the recipient and taking account of all gifts and bequests received over a lifetime, possibly with an exemption level for small amounts – decreases potential efficiency and equity gains, and likely leads to (even) greater political resistance to such taxes.

These difficulties, and the drawbacks of net wealth taxation briefly discussed above, are arguments to give priority to improving the taxation of capital income, for which international cooperation is key. A major breakthrough in this domain was the recent (2014) adoption of a single, global standard (the Common Reporting Standard, CRS) for Automatic Exchange of Information (AEOI) in tax matters. Developed by the OECD at the request of G20 countries, the CRS asks jurisdictions to obtain information from their financial institutions and automatically

share that information, on an annual basis, with foreign countries. Over 90 jurisdictions have now committed to implementing the CSR by 2017 or 2018, thus giving tax authorities automatic access to data on account balances and multiple types of investment income. Progress in AEOI might also enable countries to tax capital income of individuals resident for tax purposes in the country at (modestly) progressive rates through dual progressive income taxation, which would be equity-enhancing. In the future, better information on capital income, and associated cross-checking between wealth stocks and income flows, will also likely make it more feasible to successfully implement taxation of wealth transfers.

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